REIG JOFRÉ

A very distinct specialty pharma company

- **What is Reig Jofré?** Reig Jofré (RJF) is a family-owned (63% by the Reig family) specialty pharma selling off-patent prescription drugs (63% of 2023 sales), OTC consumer products (23%), and CDMO services (14%). Spain accounts for 45% of sales, EU 43% & RoW 12%. RJF has three business units: 1) PharmaTech (44% of sales), which comprises industrial businesses; 2) Specialty Pharmacare (38%), mostly specialised prescription drugs; and 3) Consumer Healthcare (23%), selling dietary supplements. In 2023, RJF generated €316m in sales, €34m EBITDA and €8m in net profit.

- **A distinct pharma business model.** Reig differentiates its business with: 1) industrial processes (antibiotic and injectables manufacturing) which are hard to replicate by peers even if the products are off-patent; 2) incremental innovation, which focuses on improving existing drugs to differentiate them from other generics; and 3) brand awareness in consumer healthcare.

- **Strengths.** a) Industrial expertise in complex processes (antibiotics, injectables); b) low-risk R&D; c) diversified (#1 product is <5% of sales) and complementary (commercial and R&D synergies) portfolio; d) strong growth prospects and potential upside risk (antibiotics pricing, internationalization, M&A); e) solid B/S (1.7X ND/EBITDA). **Weaknesses.** a) Limited pricing power (regulated prices); b) low margins (5% EBIT); c) capital intensive (6% RoCE); d) GLP1 competition in weight loss (4% of sales); e) talent acquisition and >10% wage inflation in 2024.

- **Strong growth prospects.** We expect a 2023-26 CAGR of 8% in sales & 15% in adj. EPS, boosted by: a) the agreement with the EC to reserve capacity for emergencies; b) the strong demand in injectables; c) share gains in antibiotics as competitors are exiting the market; d) the rollout of recently acquired products over RJF's sales network; e) internationalization of the specialty pharmacare and consumer health businesses; and f) margin expansion thanks to a better mix, industrial efficiencies, and operating leverage, offsetting the wage inflation.

- **€2.54-3.84p.s. DCF range, >100% upside on multiples SotP.** Our DCF (9% WACC, 2% terminal growth) ranges €2.54-3.84 p.s., based on conservative (3% sales CAGR 2028-35, 13% EBITDA margin) or more aggressive (5% CAGR, 16% EBITDA margin) assumptions. Based on EV/sales multiples for peers across specialty pharma, generics, CDMO & consumer health, and applying a 66% discount to make up for Reig's lower margins (EBIT margin is 1/3 of peers), we would obtain a valuation of €5.30p.s., >100% above current market prices.

Financial Ratios	FY21	FY22	FY23	FY24E	FY25E	FY26E
EBIT, adj. (€m)	15	14	17	20	24	27
Net profit (€m)	5	6	8	11	13	16
EPS (€)	0.06	0.08	0.11	0.13	0.16	0.19
Adj. EPS (€)	0.12	0.14	0.16	0.19	0.22	0.25
P/E (x)	75.0	33.4	23.6	19.3	16.0	13.4
P/E Adj. (x)	39.5	19.7	15.4	13.6	12.0	10.5
EV/EBIT (x)	29.6	19.0	15.1	12.6	10.8	9.2
Debt/EBITDA (x)	2.6	2.1	1.7	1.6	1.2	0.9
P/BV (x)	2.0	1.1	1.0	1.0	0.9	0.9
RoE (%)	5.0	5.6	6.3	7.1	7.8	8.7
DPS (€)	0.05	0.04	0.04	0.05	0.06	0.08
Dividend yield (%)	0.9	1.4	1.6	2.1	2.5	3.0

(*) Historical multiples based on average share price of the year

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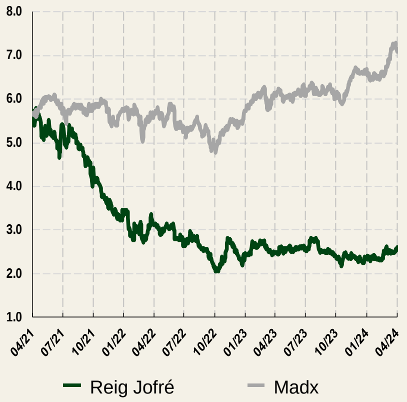
Share Price (*)	€ 2.59

*Share price at the close of 09 April 2024

RJFE.MC / RJF SM	
Market Cap	€ 208 m
Enterprise Value	€ 256 m
Free Float	€ 37 m
Nº Shares	79.6 m
Average Daily Volume	€ 26 k

Performance	1m	3m	12m
Absolute %	-0.4	11.1	6.0
Relative %	-5.6	2.5	-14.8



Shareholders

Reig family 62.8%, Kaizaharra (Mr. López Gandásegui) 10.1%, Onchena 6.1%, Quaero 3.2%, free float 17.9%

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Key Data

P&L account (€ m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	236	271	316	348	372	396
COGS	(91)	(113)	(134)	(145)	(153)	(162)
Gross Profit	**145**	**158**	**182**	**203**	**219**	**233**
Opex	(118)	(128)	(149)	(164)	(176)	(186)
EBITDA adj.	**27**	**30**	**34**	**38**	**43**	**48**
D&A	(12)	(15)	(17)	(18)	(20)	(21)
EBIT adj.	**15**	**14**	**17**	**20**	**24**	**27**
PPA amortization	(6)	(6)	(6)	(6)	(6)	(6)
Non-recurring items	-	-	-	-	-	-
EBIT	**9**	**9**	**11**	**14**	**18**	**21**
Net interest	(0)	(1)	(1)	(2)	(2)	(2)
Other non-operating results	(3)	(0)	0	-	-	-
EBT	**6**	**7**	**10**	**12**	**15**	**18**
Income tax expense	(1)	(1)	(1)	(1)	(2)	(2)
Minorities	-	-	-	-	-	-
Net profit, reported	**5**	**6**	**8**	**11**	**13**	**16**
Adjustments	4	4	5	5	5	5
Net profit adjusted	**9**	**11**	**13**	**15**	**18**	**21**

	FY21	FY22	FY23	FY24E	FY25E	FY26E
Nº of shares (m)	77	78	80	81	83	83
Nº of shares adjusted (m)	77	78	79	80	82	83
Treasury stock (m)	1	1	1	1	1	1

YoY Growth	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales	2.7%	14.8%	16.6%	9.9%	7.1%	6.3%
EBITDA adjusted	2.9%	10.0%	13.9%	14.0%	12.7%	10.6%
EBIT adjusted	(2.1%)	(2.1%)	14.2%	23.3%	15.6%	13.3%
Net profit, reported	(9.8%)	30.8%	29.9%	28.0%	23.3%	20.9%

Revenues by division	FY21	FY22	FY23	FY24E	FY25E	FY26E
Pharmaceutical Tech	44%	46%	44%	45%	44%	44%
Specialty Pharma	32%	30%	33%	33%	34%	34%
Consumer Healthcare	24%	24%	23%	22%	22%	22%

Revenues by geography	FY21	FY22	FY23	FY24E	FY25E	FY26E
Spain	45%	44%	45%	44%	44%	44%
Rest of EU	43%	47%	44%	44%	45%	45%
Rest of World	12%	9%	12%	12%	11%	11%

Per share data	FY21	FY22	FY23	FY24E	FY25E	FY26E
EPS	0.06	0.08	0.11	0.13	0.16	0.19
EPS adjusted	0.12	0.14	0.16	0.19	0.22	0.25
CFPS	0.26	0.33	0.38	0.39	0.43	0.47
FCFPS	(0.18)	0.09	0.08	(0.05)	0.09	0.22
BVPS	2.44	2.50	2.58	2.67	2.77	2.86
DPS	0.05	0.04	0.04	0.05	0.06	0.08

Cash flow (€ m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net profit	5	6	8	11	13	16
Depreciation	18	21	23	24	26	27
Minorities	-	-	-	-	-	-
Non-cash adjustments	(3)	(2)	(1)	(3)	(4)	(4)
Total cash-flow (CF)	**20**	**26**	**30**	**31**	**35**	**39**
Capex	(20)	(12)	(13)	(21)	(23)	(16)
Working capital investment	(7)	(3)	(12)	(7)	(5)	(5)
Operating FCF	**(7)**	**11**	**6**	**2**	**7**	**18**
Financial investments	-	-	-	-	-	-
Disposals (acquisitions)	(4)	(2)	-	(7)	-	-
Rights issues	-	-	-	-	-	-
Others	(3)	(2)	1	-	-	-
FCF before dividends	**(14)**	**7**	**7**	**(4)**	**7**	**18**
Dividends paid	(0)	(0)	(0)	(0)	(0)	(6)
Free-cash-flow (FCF)	**(14)**	**7**	**7**	**(4)**	**7**	**12**
Share buybacks	-	-	-	-	-	-
FCF after buy backs	**(14)**	**7**	**7**	**(4)**	**7**	**12**

Balance sheet (€ m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Shareholders' equity	189	195	204	215	228	238
Minority interests	-	-	-	-	-	-
Provisions and other liabilities	8	7	7	7	7	7
Net debt	69	62	56	60	53	42
Capital invested	**266**	**264**	**267**	**282**	**288**	**286**
Goodwill & PPA intangibles	166	152	138	132	126	120
Fixed operating assets	34	41	45	52	59	58
Non-operating assets	22	19	19	25	25	25
Working capital	44	53	66	73	78	83
Capital employed	**266**	**264**	**267**	**282**	**288**	**286**
Working capital/sales	18.7%	19.4%	20.7%	21.0%	21.0%	21.0%

Financial ratios	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net debt/EBITDA	2.6X	2.1X	1.7X	1.6X	1.2X	0.9X
Net debt adjusted(*)/EBITDA	2.6X	2.1X	1.7X	1.6X	1.2X	0.9X
Gearing	36.6%	32.0%	27.3%	28.0%	23.3%	17.5%
Interest cover	22.9X	9.5X	9.0X	6.8X	7.2X	8.6X

Margins & ratios	FY21	FY22	FY23	FY24E	FY25E	FY26E
EBITDA adj. margin	11.4%	10.9%	10.7%	11.0%	11.6%	12.1%
EBIT adj. margin	6.3%	5.3%	5.2%	5.9%	6.3%	6.8%
Effective tax rate	12.6%	9.2%	11.5%	12.0%	12.0%	12.0%
Pay-out	70.0%	48.1%	37.5%	40.0%	40.0%	40.0%
ROCE (EBT/CE)	3.3%	3.2%	3.9%	5.1%	6.1%	7.2%
ROE	5.0%	5.6%	6.3%	7.1%	7.8%	8.7%

Summary & Investment Case

What is Reig Jofré (RJF)?

Reig Jofré (RJF) is a Spanish, family-owned (63% by the Reig family) specialty pharma company selling a diversified portfolio of off-patent prescription drugs (63% of 2023 sales) and consumer healthcare products (23%), and which also offers CDMO services (14%). RJF is organised into three business units: 1) Pharmaceutical Technologies (44% of sales), which comprises the businesses that are more differentiated by industrial processes (antibiotics and injectables); 2) Specialty Pharmacare (38% of sales), where the focus is on product design rather than industrial processes; and 3) Consumer Healthcare (23% of sales), which includes over-the-counter dietary supplements. In 2023, the company generated €316m sales, €34m EBITDA and €8m net profit.

A differentiated pharma business model

Reig is not like most specialty pharma companies or CDMO manufacturers, and does not rely on intellectual property to fend-off competition. The key differentiating factors are: 1) industrial processes, with the company being involved in the complex manufacturing of antibiotics, injectables and lyophilizates which, even if off-patent, are hard to replicate by competitors; 2) incremental innovation, which focuses on improving off-patent drugs to differentiate them from other generics; and 3) brand awareness, as it is the preferred choice for consumer healthcare products.

Strengths and opportunities

a) Industrial expertise in complex manufacturing processes (antibiotics, injectables & lyophilizates) that are hard to replicate and create barriers to entry; b) low-risk R&D, focused on incremental innovation (improving efficacy, safety or convenience of existing, off-patent drugs) rather than traditional high-risk drug discovery, c) diversified and complementary portfolio, with no single product accounting for >5% of sales, and with commercial and R&D synergies across the different businesses; d) strong growth prospects (+15% adjusted EPS CAGR over 2023-26) driven by higher capacity utilisation, a better product mix and industrial efficiencies, and with additional upside potential from better antibiotics pricing, entry into new geographies, or M&A; and e) a strong balance sheet (1.7X23 ND/EBITDA) with space to accommodate growth opportunities.

Weaknesses and threats

a) Limited pricing power in critical care products, which have failed to catch up with inflation in recent years; b) low margins (10.7% EBITDA, 5.2% adjusted EBIT margin ex-PPA amortization, 3.3% reported EBIT margin), partly due to an under-utilised asset base; c) high capital intensity (plant and equipment, working capital and intangibles), leading to a low return on capital (6% RoCE, 4% RoE); d) GLP1 competition in weight loss consumer healthcare products (c.4% of group sales) and of generics in some markets for its osteoarticular portfolio; and e) talent acquisition and cost inflation, especially in 2024 with double-digit salary increases.

Strong growth prospects as the company leverages on past investments

Reig was active in growth investments over 2017-19 (€77m, c.40% of market cap) by adding capacity in injectables and acquiring some drug portfolios. This has not yet paid off due to the disruption of the pandemic, but we expect this to allow for significant sales growth driven by: a) the agreement with the EC to reserve capacity for emergencies; b) strong demand trends in injectables; c) market share gains in antibiotics as competitors are exiting the business; d) the rollout of recently acquired products over RJF's sales network; and e) internationalisation of the specialty pharmacare and consumer health businesses. This should fuel 8% 2023-26 sales CAGR and, with better product mix, improving efficiencies and operating leverage, should drive 12% EBITDA, 17% adj. EBIT and 15% adj. EPS CAGR over the period.

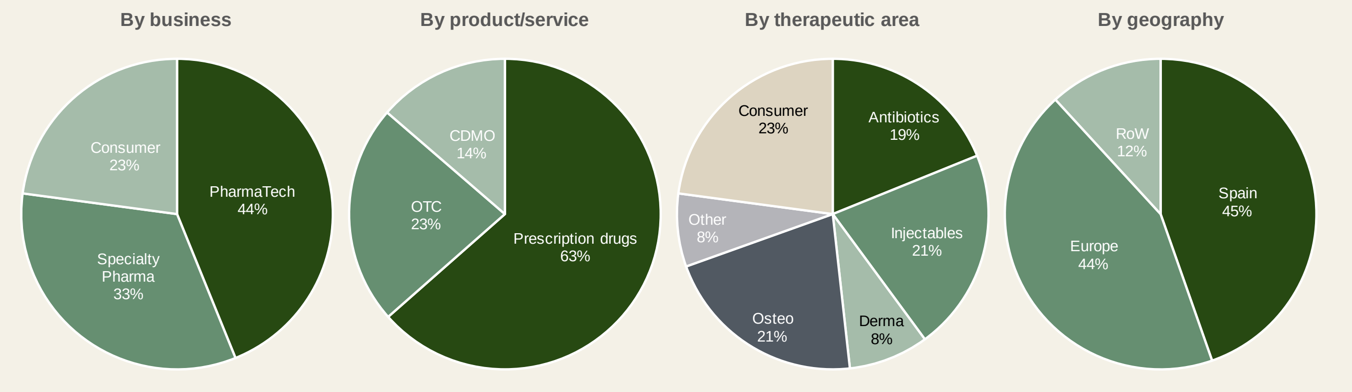
Healthy B/S with flexibility for growth opportunities

RJF has €61m of gross debt (€40m banking, €15m leases & €8m government) at a 2% average cost, but that should roll over shortly (c.€50m maturities in 2024-25). Net debt stands at €56m or 1.7X23 EBITDA, which is very comfortable given the relatively high demand visibility of the business (normalised level could be 2.0-2.5X). This gives Reig flexibility to take on investment opportunities.

€2.54-3.84p.s. DCF valuation range, >100% upside on a multiples-based SotP

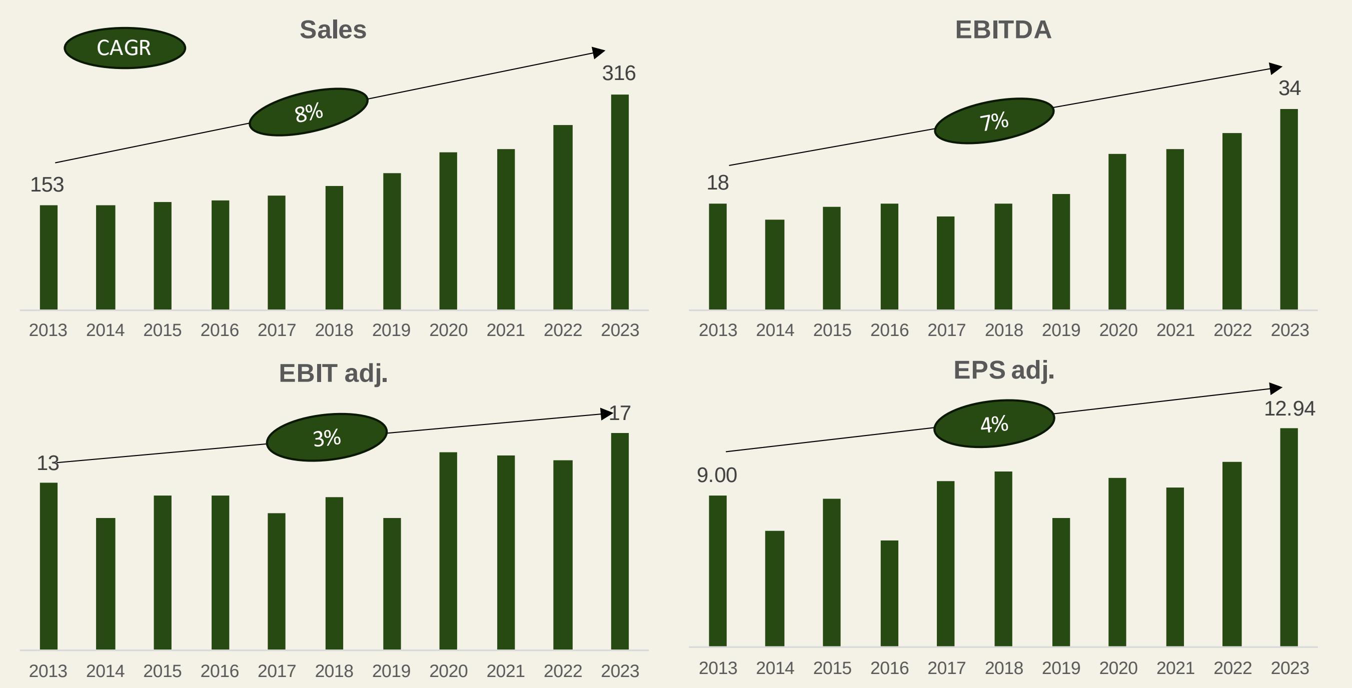
We approach RJF's valuation through DCF and a multiples-based SotP. Our DCF (9% WACC, 2% terminal growth) ranges €2.54-3.84p.s. based on conservative (3% sales CAGR 2028-35, 13% EBITDA margin) or more aggressive (5% CAGR, 16% EBITDA margin) assumptions. RJF is quite a unique pharma company without a clear peer group, but looking at specialty pharma, generics manufacturers, CDMO/CRO and consumer healthcare products EV/sales multiples, and applying a 66% discount to make up for the much lower margins of Reig vs. peers (EBIT margin is 1/3 compared to the healthcare average), we reach €5.3p.s., >100% above market prices.

REIG JOFRÉ: SALES BREAKDOWN 2023



Source: Reig Jofré 2023 accounts

REIG JOFRÉ: HISTORICAL P&L PERFORMANCE



Source: Reig Jofré financial statements

REIG JOFRÉ: HISTORICAL MARGINS AND PROFITABILITY

(%)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2015-23 average
Gross margin	62.3	61.9	61.8	62.5	63.1	61.0	61.3	58.3	57.7	61.1
EBITDA margin	10.9	11.0	9.3	9.8	9.7	11.4	11.4	10.9	10.7	10.6
EBIT margin, adjusted	7.5	7.3	6.2	6.5	5.0	6.6	6.3	5.3	5.2	6.2
EBIT margin, reported	7.5	7.3	5.3	5.6	3.2	4.0	3.7	3.1	3.3	4.8
RoCE	7.9	6.9	6.3	6.5	3.8	5.8	5.6	5.5	6.2	6.0
RoIC	6.3	4.2	6.6	6.2	3.6	5.4	5.3	5.1	5.7	5.4
RoE	7.0	4.7	6.0	6.1	2.7	3.0	2.6	3.3	4.1	4.4

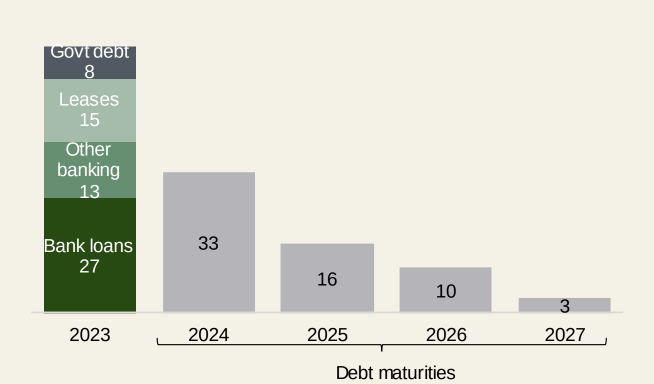
Source: Reig Jofré financial statements

REIG JOFRÉ: BUSINESS SUMMARY PERFORMANCE, INTERNAL AND EXTERNAL GROWTH DRIVERS

		Sales 20-23 CAGR	Sales 2023 €m	As % of group	Sales 23-26 CAGR	Margins	Sector drivers	RJF drivers
PharmaTech	Injectables/lyoph.	10%	67	21%	12%	High	+ Biologics and advanced therapies + Outsourcing of manufacturing + Near-shoring	+ EC agreement + Capacity addition + Improved commercial positioning
	Antibiotics	3%	60	19%	4%	Low	+ Ageing population - Antibiotic resistance +/- Regulated pricing	+ Market share gains + Capacity
	Total	**7%**	**139**	**44%**	**8%**	**Medium**		
Specialty	Derma	-3%	30	10%	13%	High	+ Increased healthcare spending	+ Ciclo-Tech® product launches + Internationalization
	Osteo	37%	73	23%	8%	High		+ Rollout of Bioibérica portfolio on RJF commercial network
	Total	**17%**	**105**	**33%**	**8%**	**High**		
Consumer	Energy & health	16%	60	19%	8%	Very high	+ Inceased public awareness on health + GDP growth	+ Brand awareness + International expansion
	Weight	-3%	12	4%	-1%	Very high	+ Increased awareness on weight control - Competition from GLP1s	
	Total	**11%**	**72**	**23%**	**7%**	**Very high**		

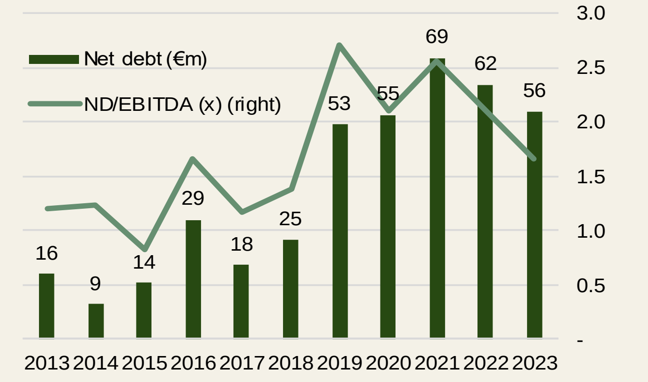
Source: Reig Jofré for historical figures, Alantra Equities

REIG JOFRÉ: DEBT STRUCTURE



Source: Reig Jofré

REIG JOFRÉ: LEVERAGE EVOLUTION



Source: Reig Jofré

REIG JOFRÉ: PEERS' FUNDAMENTALS BY INDUSTRY

	L5Y CAGR (%)				L3Y average (%)				Leverage	Consensus 2Y fwd CAGR (%)			
	Sales	EBITDA	EBIT	EPS	EBITDAmg	EBITmg	RoE	RoCE	2023 (x)	Sales	EBITDA	EBIT	EPS
Specialty pharma	8.5	7.2	3.9	(10.1)	25.8	15.3	3.8	13.5	(0.2)	10.7	16.5	16.1	10.1
CDMO	14.2	16.4	14.4	5.5	26.3	18.2	14.9	13.6	1.5	3.2	5.7	6.9	29.9
Generics	7.7	1.1	(1.1)	(79.4)	19.1	15.7	9.9	17.3	1.6	5.5	3.7	15.6	62.6
Consumer	11.1	11.9	12.9	8.6	26.5	24.3	13.9	44.6	(0.2)	7.7	6.7	9.6	29.2
Reig Jofre	**11.9**	**13.8**	**7.2**	**0.7**	**11.0**	**5.6**	**3.4**	**5.7**	**1.7**	**8.5**	**13.4**	**19.4**	**15.0**

Source: Refinitiv

REIG JOFRÉ: PEERS' MULTIPLES BY INDUSTRY

(x)	M. Cap (€ bn)	EV/sales 2024E	EV/sales 2025E	EV/EBITDA 2024E	EV/EBITDA 2025E	EV/EBIT 2024E	EV/EBIT 2025E	P/E 2024E	P/E 2025E
Specialty pharma	2.1	3.7	3.1	13.9	9.8	14.4	13.6	17.1	16.1
CDMO	6.3	3.4	3.2	14.4	12.9	17.9	16.2	21.4	18.4
Generics	3.4	2.1	2.0	9.2	8.4	9.4	12.8	11.9	11.0
Consumer	0.8	4.0	3.7	15.8	14.2	17.7	15.9	29.3	24.7
Average	**3.1**	**3.3**	**3.0**	**13.3**	**11.3**	**14.9**	**14.6**	**19.9**	**17.6**
Reig Jofre	**0.2**	**0.7**	**0.7**	**6.7**	**5.9**	**12.6**	**10.8**	**13.6**	**12.0**
Premium (discount)	(93%)	(78%)	(77%)	(50%)	(48%)	(15%)	(26%)	(32%)	(32%)

Source: Refinitiv

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Valuation

Please note that the valuation model is based on long-term analysis, and that any ranges or discussions below do not constitute a short-term assessment of the likely performance of the shares. In order to better understand the value of the company, we have performed both a DCF and a multiples-based sum-of-the-parts valuation.

1) €2.54-3.84p.s. valuation range through DCF model

DCF based on 10.3% cost of equity, 9% WACC & 2% terminal growth

Our first approach to valuing Reig Jofré is through discounting its cash flows, based on our explicit operating estimates up until 2028, and then assuming higher-level estimates up until 2035. We use two different scenarios, although both share the following assumptions: a 9.0% WACC based on a 10.3% cost of equity and 5% pre-tax cost of debt, 2% terminal growth rate, and a terminal after tax return on invested capital of 10%. The assumptions of the two scenarios are as follows:

REIG JOFRÉ: WACC & VALUATION ASSUMPTIONS

Common terminal assumptions			Conservative	Optimistic
Cost of equity	10.3%	Sales CAGR	3.0%	5.0%
Cost of debt (pretax)	5.0%	EBITDA margin	13.0%	16.0%
WACC	9.0%	D&A to sales	4.5%	5.0%
Terminal growth rate (g)	2.0%	Tax rate	20.0%	25.0%
RoIC	10.0%	Capex to sales	6.0%	8.0%

Source: Alantra Equities

3% growth and 13% EBITDA margin on the conservative scenario

a) **Conservative (€2.54p.s.).** For this scenario, we assume 3% revenue CAGR and a 13% EBITDA margin over the period (vs. c.10% historical EBITDA margin and our 12% estimate by 2026). To sustain this growth, we assume that capex should stabilise at 6% of sales (maintenance capex is c.4% of sales plus lumpy replacement investments every few years). Moreover, we estimate the tax rate to be at 20% vs. 12% as of today, but still below the 25% normalised as R&D deductions should continue to benefit the tax rate. All in all, this translates to an EV of €244m, from which we subtract €60m of estimated net debt as of end 2024, and add back €20m in non-operating assets and €2m treasury shares. With this, we reach an equity value of €207m, and we estimate 81m shares as of the end of 2024, already reflecting an increase in the share count of 1m shares for the scrip dividend. This leads to €2.54p.s.

Optimistic scenario with 6% growth % 16% margin, but also requiring higher investment

b) **Optimistic (€3.84p.s.).** In this scenario, we assume a 6% revenue CAGR & 16% EBITDA margin thanks to higher operating leverage, as well as our belief that higher growth should likely stem from the higher margin businesses (injectables). This would require greater investments (8% capex to sales, 5% D&A to sales) and R&D tax savings would be diluted, thus we assume a 25% tax rate. With this, we estimate an EV of €350m, and when subtracting the aforementioned items, we reach an equity value of €312m, or €3.84p.s.

REIG JOFRÉ: DCF VALUATION SCENARIOS

(€ m)	Conservative	Optimistic
EV	**244**	**350**
Net debt	(60)	(60)
Non-operating assets/liabilities	20	20
Treasury shares	2	2
Equity value	**207**	**312**
Number of shares (m)	81	81
TP (€ p.s.)	**2.54**	**3.84**
Current price (€ p.s.)	2.59	2.59
Upside / (downside)	**(2%)**	**48%**

Source: Alantra Equities

In the next page, we summarise the implicit multiples valuations arising from our DCF model. In the conservative scenario, our valuation implies 6.4X24 EV/EBITDA, 12.0X EV/EBIT & 13.5X P/E, while for our optimistic scenario it yields 9.1X EV/EBITDA, 17.1 EV/EBIT & 20.4 P/E. As a reference, RJ currently trades at 6.5X EV/EBITDA, 12.3X EV/EBIT & 13.2X P/E.

REIG JOFRÉ: IMPLIED VALUATION MULTIPLES

	Conservative			Optimistic		
(X)	2024E	2025E	2026E	2024E	2025E	2026E
EV/Sales	0.7	0.7	0.6	1.0	0.9	0.9
EV/EBITDA	6.4	5.6	5.1	9.1	8.1	7.3
EV/EBIT	12.0	10.4	9.1	17.1	14.8	13.1
P/E	13.5	11.6	10.0	20.4	17.5	15.1

Source: Alantra Equities

2) Multiples-based sum-of-the-parts yields >100% upside

There are no direct peers, so we focus on industry averages

Our second approach to valuing Reig Jofré would be through a multiples-based sum-of-the-parts. The company is a small, Spanish pharma with a unique range of businesses, which makes it difficult to find a truly similar peer group. However, we can draw similarities between four groups of healthcare companies: 1) Specialty Pharma, 2) CDMO, 3) Generics and 4) Consumer Health. Consequently, we have identified and grouped 40 European peers in accordance with each division, for which we present their key financial figures below.

REIG JOFRÉ: MEDIAN PEERS OPERATING METRICS

	L5Y CAGR (%)				L3Y average (%)				Leverage	Consensus 2Y fwd CAGR (%)			
	Sales	EBITDA	EBIT	EPS	EBITDAmg	EBITmg	RoE	RoCE	2023 (x)	Sales	EBITDA	EBIT	EPS
Specialty pharma	8.5	7.2	3.9	(10.1)	25.8	15.3	3.8	13.5	(0.2)	10.7	16.5	16.1	10.1
CDMO	14.2	16.4	14.4	5.5	26.3	18.2	14.9	13.6	1.5	3.2	5.7	6.9	29.9
Generics	7.7	1.1	(1.1)	(79.4)	19.1	15.7	9.9	17.3	1.6	5.5	3.7	15.6	62.6
Consumer	11.1	11.9	12.9	8.6	26.5	24.3	13.9	44.6	(0.2)	7.7	6.7	9.6	29.2
Reig Jofre	**11.9**	**13.8**	**7.2**	**0.7**	**11.0**	**5.6**	**3.4**	**5.7**	**1.7**	**8.5**	**13.4**	**19.4**	**15.0**

Source: Refinitiv price data and consensus estimates, Alantra Equities for estimates on Reig Jofré only

Lower margins and return on capital than peers

As shown above, Reig's performance has lagged behind its peer group: while sales and EBITDA growth have sat in the upper range vs. peers, this has come thanks to significant investments and EBIT & EPS growth have underperformed, except for specialty pharma and generics players which have also suffered materially. Margins and return on capital also sit below peers, and leverage is slightly higher. Part of this is explained by significant investments carried out by Reig Jofré that are not yet paying off, as their exploitation was truncated by the pandemic (and even if Reig reached an agreement to manufacture Janssen's Covid vaccine, mRNA vaccines took hold of the market and volumes for Reig ended up not meeting expectations). The flipside of this is that the investments should start to pay off in the coming years (2023 has been a good example, with double-digit growth across all divisions and profit lines), which leads us to expect Reig to be growing well above the peer group.

Reig trades at a discount

Reig shares trade at a discount to its peers in all metrics, as shown in the table below. We believe that a discount is merited considering its smaller size (€200m market cap vs. peers averaging €3bn) and consequent lower liquidity (especially considering the limited free float at just 18% of market cap), lower margins and return on capital, as well as higher leverage. However, measuring how big a discount is merited due to these factors is not an easy task.

REIG JOFRÉ: MEDIAN PEERS MULTIPLES

	M. Cap	EV/sales		EV/EBITDA		EV/EBIT		P/E	
(x)	(€ bn)	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Specialty pharma	2.1	3.7	3.1	13.9	9.8	14.4	13.6	17.1	16.1
CDMO	6.3	3.4	3.2	14.4	12.9	17.9	16.2	21.4	18.4
Generics	3.4	2.1	2.0	9.2	8.4	9.4	12.8	11.9	11.0
Consumer	0.8	4.0	3.7	15.8	14.2	17.7	15.9	29.3	24.7
Average	**3.1**	**3.3**	**3.0**	**13.3**	**11.3**	**14.9**	**14.6**	**19.9**	**17.6**
Reig Jofre	**0.2**	**0.7**	**0.7**	**6.7**	**5.9**	**12.6**	**10.8**	**13.6**	**12.0**
Premium (discount)	(93%)	(78%)	(77%)	(50%)	(48%)	(15%)	(26%)	(32%)	(32%)

Source: Refinitiv, Alantra Equities

We apply a 66% discount to peers and reach a valuation of €5.51p.s.

The company's segment reporting ends at the sales level, thus we have performed a sum-of-the-parts valuation based on EV/Sales multiples from the peer set discussed earlier. Given that Reig's EBIT margin is roughly 1/3 of what its peers report, and our view that EBIT is the best proxy for normalised unlevered CF generation, we take 1/3 of the EV/sales multiple of the peer group for each business. This yields an implied EV valuation of €471m. After subtracting net debt and others, we arrive at a €433m equity value, equivalent to €5.33p.s., which offers a >100% upside to current market prices.

REIG JOFRÉ: EV/SALES MULTIPLES-BASED SUM-OF-THE-PARTS VALUATION

(€ m)	Sales FY24E	Industry Multiple (*)	Implied Valuation
PharmaTech (Generics ex-CDMO)	124	1.6	194
CDMO	31	1.4	44
Specialty Pharma (ex-CDMO)	115	0.9	102
Consumer Healthcare	77	1.7	131
Total EV	**348**	**1.4**	**471**
Net debt			(60)
Others			22
Equity Value			**433**
Number of shares (m)			81
Equity value per share (€)			**5.33**
Current share price (€)			2.59
Upside			**106%**

(*) We have slashed industry multiples by 3

Source: Alantra Equities

3) Share price performance & historical multiples

Shares ranging €2-4p.s. since listed, except for Covid peak and subsequent burst

Since Reig Jofré became a listed company in 2015 (after its merger with Natraceutical, which was already listed), the shares traded within the €2-4p.s. range. The pandemic brought high expectations on Reig following the agreement with Janssen to manufacture its Covid-19 vaccine, leading shares to double and exceed €6p.s. at their peak. However, the Janssen vaccine was commercially unsuccessful as mRNA vaccines took the biggest part of the market, therefore the agreement never paid off as initially expected, and the shares reverted to the historical range.

Now, Reig Jofré trades at the lower range of its historical pricing, even though the group has nearly doubled its sales, EBITDA and EBIT compared to its pre-pandemic numbers. This implies a significant derating on all counts compared to multiples from 2019, and trades at the lower end of the historical range in terms of multiples, as shown in the table below.

REIG JOFRÉ: SHARE PRICE PERFORMANCE

REIG JOFRÉ: HISTORICAL MULTIPLES

Year	EV/Sales	EV/EBITDA	EV/EBIT	P/E
2015	0.9	8.4	12.3	16.3
2016	1.3	11.4	17.2	30.2
2017	1.2	12.6	18.8	18.7
2018	1.0	10.3	15.6	15.6
2019	1.2	12.6	24.3	22.0
2020	1.4	12.1	21.0	24.9
2021	1.9	16.3	29.6	39.5
2022	1.0	9.3	19.0	19.7
2023	0.8	7.4	15.1	15.4
2024E	0.7	6.7	12.6	19.3

Source: Refinitiv

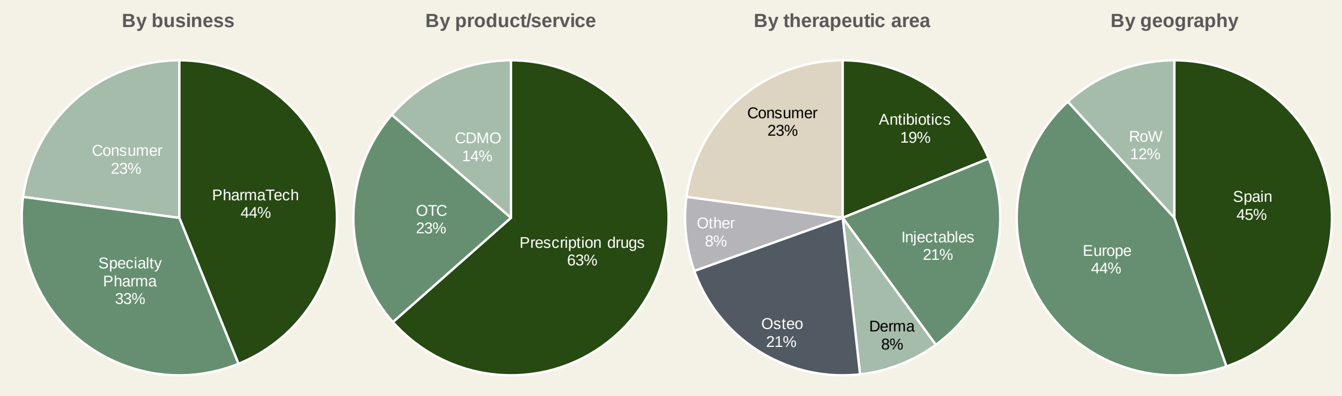
I. Reig Jofré at a glance

1) What is Reig Jofré

Specialty pharma focused on industrial processes and incremental innovation

Reig Jofré (RJF) is a Spanish, family-owned (63% by the Reig family) specialty pharma company selling a diversified portfolio of off-patent prescription drugs (63% of 2023 sales) and consumer healthcare products (23%), and which also offers CDMO services (14%) in drug development and manufacturing. The company specialises in differentiated industrial processes (antibiotics and injectables) and incremental innovation (improving the efficacy, safety or convenience of existing drugs). It primarily operates in Spain (45% of sales) and Europe (44%).

REIG JOFRÉ: SALES BREAKDOWN



Source: Reig Jofré

Reig organizes its business into three segments:

PharmaTech businesses have complex industrial processes

a) **Pharmaceutical technologies (44% of 2023 group sales).** This division comprises the areas that are differentiated by their industrial technology, including the manufacturing of antibiotics (43% of division and 19% of group sales) and of injectables and lyophilizates (48% of division, 21% of group). This consists of both the sales of its own products (88%) and CDMO services (22%). The products manufactured in this division are sold primarily to hospitals and are largely essential/critical medicines. The CDMO services focus on injectables, and these include the recent contract with the European Union to reserve part (c.30%) of the production capacity for potential future needs in the case of emergency (e.g., a pandemic). Sales are diversified across Spain (42%), Europe (36%) and rest of the world (22%).

Specialty Pharmacare includes specialty prescription drugs

b) **Specialty pharmacare (33% of sales).** This division comprises the sale of medicines where there is a greater focus on product design rather than manufacturing technologies. The medicines are primarily in osteoarticular (64%) and dermatology (25%), and it includes own patent products and other products where the group has improved on the original drug with innovation in the administration route, convenience or safety. This business also contains CDMO services (11%). The drugs are mostly sold in pharmacies, and Reig markets them to physicians who then prescribe them to patients. Sales of the division are concentrated in Spain (62%), and the company states they are starting to accelerate internationally.

Consumer includes dietary supplements

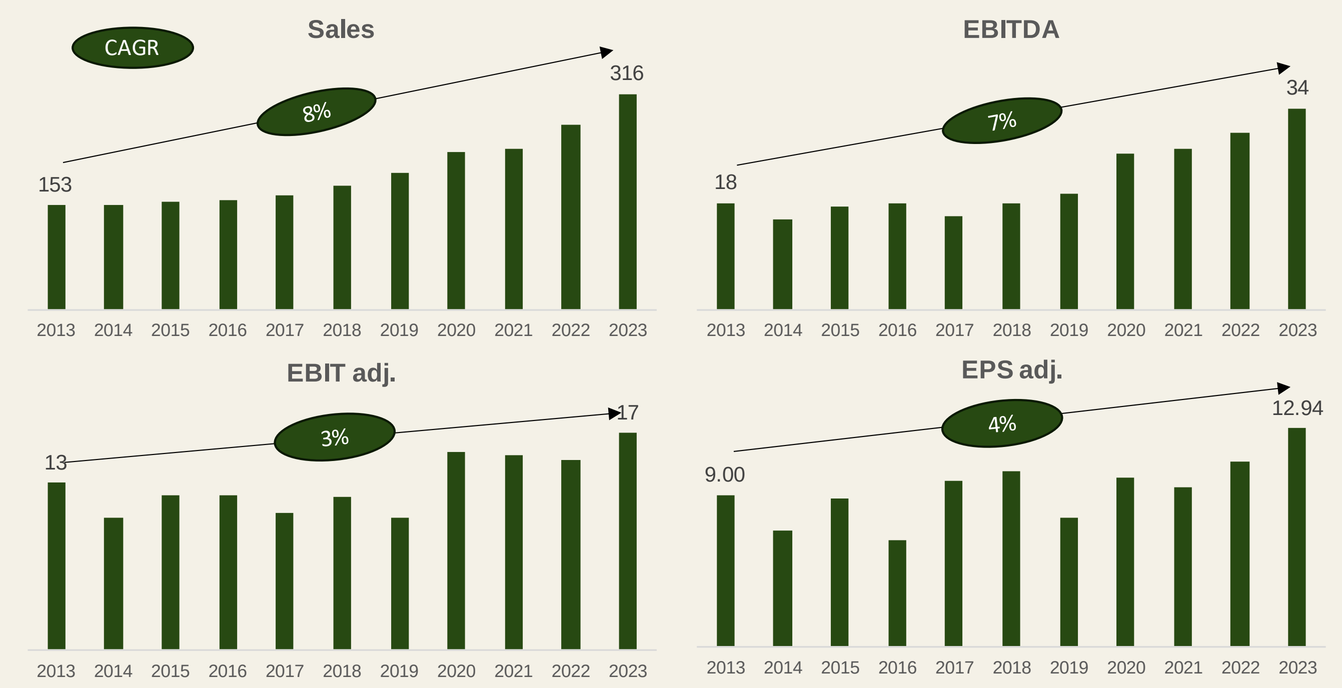
c) **Consumer healthcare (23% of total sales).** This division focuses on the development and marketing of OTC products, nutritional supplements, and other self-care & wellness consumer products. This is the more B2C business line, although distribution is undertaken through pharmacies, specialised retailers and wholesalers. As opposed to the other divisions, sales are primarily international (75% of total), with a strong presence in France through the Forté Pharma brand (#1 brand in Para pharmacy products), an asset that results from the merger with Natraceutical in 2015.

2) Reig Jofré in numbers

Consistent growth track-record…

Reig has a strong track-record in terms of revenue growth. The company became listed with the acquisition of Natraceutical in 2015, thus its historical financials only date back to 2013. Since then, the company has compounded 8% sales growth, and this has accelerated since 2019 (+12%) thanks to acquisitions and capacity additions. Profitability has been a weaker spot historically, growing slower than sales since 2013 (EBITDA +7% CAGR, EBIT and net profit +3/4% CAGR excluding PPA amortization).

REIG JOFRÉ: P&L HISTORICAL PERFORMANCE



*EBIT and EPS adjusted to exclude PPA amortization

Source: Reig Jofré historical data from financial statements, Alantra adjustments to profits

…but profitability has been the weakest spot

Part of the abovementioned growth has come from investments that have weighed on the group's return on capital, which is low at the moment (6% RoCE/RoIC, 4% RoE). However, we believe that a significant portion of the low average return on capital is the result of the appraisal valuation of Natraceutical since the merger. Other than this, it is true that part of the business (antibiotics) is very capital intensive and has a lower return on capital, but excluding this, we think that the underlying return on capital should be strong, and should be set to increase as the current spare capacity (following 2019 investments) is put to work.

REIG JOFRÉ: HISTORICAL MARGINS AND PROFITABILITY

(%)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2015-23 average
Gross margin	62.3	61.9	61.8	62.5	63.1	61.0	61.3	58.3	57.7	61.1
EBITDA margin	10.9	11.0	9.3	9.8	9.7	11.4	11.4	10.9	10.7	10.6
EBIT margin, adjusted	7.5	7.3	6.2	6.5	5.0	6.6	6.3	5.3	5.2	6.2
EBIT margin, reported	7.5	7.3	5.3	5.6	3.2	4.0	3.7	3.1	3.3	4.8
RoCE	7.9	6.9	6.3	6.5	3.8	5.8	5.6	5.5	6.2	6.0
RoIC	6.3	4.2	6.6	6.2	3.6	5.4	5.3	5.1	5.7	5.4
RoE	7.0	4.7	6.0	6.1	2.7	3.0	2.6	3.3	4.1	4.4

Source: Reig Jofré financial statements

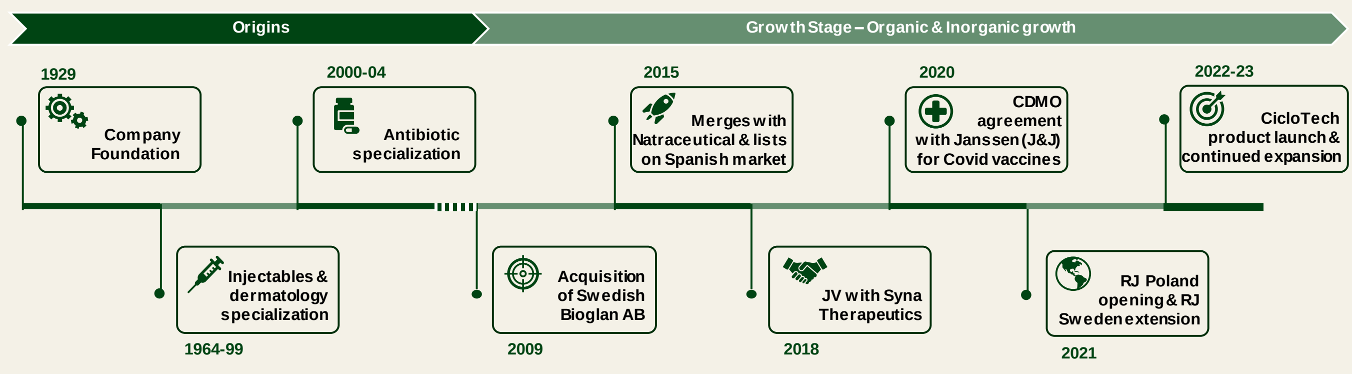
3) Reig Jofré's history

A family-owned business

Reig Jofré is a family-owned business, currently run by its third generation. It was founded in 1929 by the Spanish pharmacist Ramon Reig Jofré as a pharmacy and drug compounding laboratory. It specialised in the injectables business during the 1970s and 90s, and in antibiotics in the 2000s. In 2015, Reig Jofré merged with Natraceutical, entering the dietary supplementation business and becoming a listed company in the process (as Natraceutical was already listed).

More recently, Reig Jofré reached an agreement with Janssen (Johnson & Johnson's pharma subsidiary) to manufacture its Covid-19 vaccines, which would have brought significant utilisation to the recent capacity additions in injectables. However, the Janssen vaccine was less successful commercially than mRNA shots, which took the vast majority of the market, and thus Reig Jofré never produced the volumes it was expected to. During this time, the shares doubled by mid-2021, then lost all the ground gained subsequently. Despite this, the company now has a significantly larger manufacturing footprint that is yet to be put to work. Following this, the EU selected RJF to reserve up to 30% of its production capacity for potential future emergencies.

REIG JOFRÉ: GROUP HISTORY



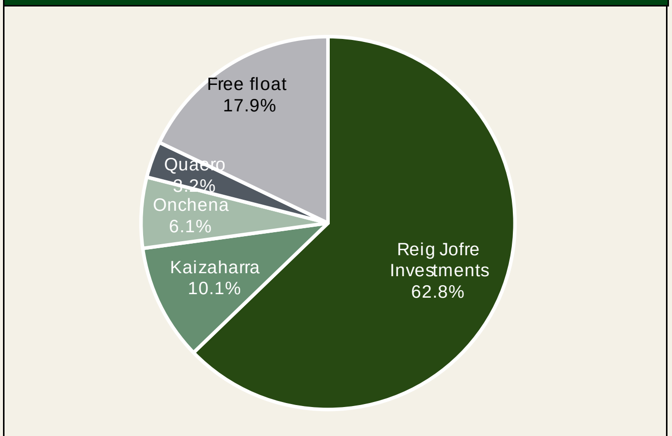
Source: Reig Jofré website

4) Shareholder structure & governance

Reig Jofré was entirely owned by the family (through Reig Jofré Investments) until the acquisition of Natra in 2015, through which the family reduced their stake to 75% and RJF became listed. Since then, the family has lowered its stake to its current 62.8%, primarily through the €24m (10m shares or 15% of the share count at the time) capital increase in 2019. After the family, the largest shareholders are Kaizaharra (an investment vehicle of Iñaki López Gandásegui) with 10.1%, Onchena with 6.1%, and Quaero with 3.2%, the latter two entering through the 2019 capital increase. The free float stands at 17.9%.

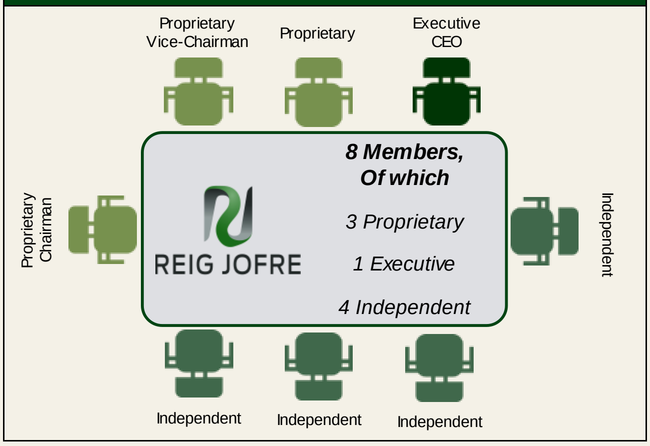
The board of director comprises 8 members, of which 3 are proprietary, 4 independent, and 1 executive (the CEO). The company is currently led by Ignasi Biosca (CEO, 55), who is a third-generation member of the Reig family, and who joined the company in 2006.

REIG JOFRÉ: SHAREHOLDER STRUCTURE



Source: CNMV

REIG JOFRÉ: BOARD OF DIRECTORS



Source: Reig Jofré governance report

II. SWOT

1) Strengths and opportunities

Manufacturing processes are complex and hard to replicate

a) **Industrial expertise creates barriers to entry.** Reig Jofré's business is different from most specialty pharma as the company does not fend off competition through patent protection, but instead through expertise in niche products that require specialised industrial capabilities that are hard to replicate, such as antibiotics manufacturing, injectables or lyophilizates. The economics of these businesses are more akin to industrial companies than to pharma, and enjoy significant barriers to entry including regulatory and reputational ones due to the criticality of the final product being of a high quality. Having been selected by the EC as emergency supplier, or selected by Janssen to produce its Covid vaccine, demonstrates Reig's high-quality standards and differentiates the company from other players.

Focus on improving already existing drugs

b) **Low risk incremental innovation & brand awareness.** Another differentiating factor is the incremental innovation, which aims to improve the efficacy, safety or convenience of already existing and approved drugs. This is a lower risk R&D approach than traditional drug discovery, and the outcome is not easily replicable by other generic companies, even if the products lack patent protection. Reig also sells consumer healthcare products, in which its brand position (Forté Pharma is #1 in France, its largest market) is a key differentiating factor.

No product represents >5% of sales, there are commercial & R&D synergies across businesses

c) **Diversified and complementary product portfolio.** No single product accounts for more than 5% of group sales. And while the businesses which Reig operates may appear unrelated at first sight, they share significant commercial (drug development know-how is sold in CDMO, shares sales network and partnership agreements are shared across divisions) and R&D (incremental innovation can be utilised across different product families) synergies.

Sales growth, improving mix and operating leverage

d) **Strong growth prospects with upside potential.** The company invested heavily over 2017-19, and there are several assets that can be exploited for material growth without major incremental investment. Over 2023-26, we expect 8% sales, 12% EBITDA, 17% EBIT and 15% EPS CAGR, with growth in all businesses and margin expansion. Additional upside could stem from an increase in antibiotics regulated prices, entry into new geographies and M&A.

1.7X ND/EBITDA allows for financial flexibility

e) **Strong balance sheet.** Leverage stood at 1.7X ND/EBITDA as of 2023, which is comfortable given the stable demand and relatively high visibility of the business (we think that Reig can operate with 2-2.5X ND/EBITDA). This provides flexibility to take on growth opportunities.

2) Weaknesses and threats

Regulated prices have failed to catch up with inflation

a) **Limited pricing power in antibiotics and other critical care products.** The price of critical medicines without patent protection, like antibiotics and other products manufactured by Reig, have a regulated price, which has failed to catch up with inflation over the past decade. However, regulators could now be open to revisiting prices, as manufacturers are exiting the business and Europe is becoming overly reliant on Asian suppliers for critical medicines.

Thin margins, below peer group

b) **Low margins.** EBITDA & EBIT margins (adjusted for PPA) stand at 11% and 5.2%, respectively, fairly stable over the past decade. While this is partly due to the limited pricing power, this also reflects the spare capacity which is yet to be utilised. We expect an improvement in product mix and an increased utilisation of capacity to drive margin expansion.

Low return on capital due to under-utilised asset base

c) **High capital intensity.** The business requires expensive facilities and equipment, working capital, and often M&A to expand the product portfolio, making it highly capital intensive, which has led to low returns on capital in the past (RoCE ranging 5-8%). However, and as mentioned above, the current installed capacity has greater earnings power than it generates, which can drive higher RoCE. We highlight that recent investments are delivering >10% RoCE.

GLP1s likely to disrupt weight management supplements

d) **Competition in weight loss & osteoarticular.** The surge of GLP1 (Ozempic, Wegovy) for weight management will likely compete with Reig's dietary supplements for weight loss (c.4% of group sales). However, growth in other consumer healthcare products should offset this. There is also upcoming generic competition in osteoarticular, leading to lower pricing.

Double-digit salary increases in 2024

e) **Talent acquisition and cost inflation.** The business is intensive in highly skilled labour, and the company will face high inflation in 2024 due to the sector bargaining agreement. Longer term, attracting and retaining talent is key for the sustainability of the business and its growth.

III. A differentiated business model with barriers to entry

Unlike most pharma companies, patent protection is not the key differentiator

Reig Jofré runs a very distinct business to most specialty pharma companies, with a clear focus on differentiation and risk-reduction vs. more traditional drug discovery or generic manufacturing businesses. This differentiation places Reig in smaller niche segments and is a source of its competitive advantages. In our view, the following are the key differentiating factors: 1) industrial processes; 2) incremental innovation; and 3) brand awareness.

1) Industrial processes

Most pharma companies fend-off competition with intellectual property (i.e., patent protection). Instead, Reig fends-off competition through its industrial processes, which are complex, and while the products lack patent protection, other laboratories lack the expertise to manufacture them. This differentiation reminds us of similar barriers in Rovi (heparins) or Grifols (plasma derivatives). In the case of Reig, this includes the production of antibiotics and of injectables and lyophilizates.

Antibiotic manufacturing requires dedicated facilities

Antibiotic manufacturing (19% of 2023 group sales) requires specialised facilities that must be separated from other drug synthesis manufacturing sites due to contamination and allergy risks. This makes most large pharma or even specialised generics manufacturers avoid the segment, as it requires dedicated capital investments and specialised expertise.

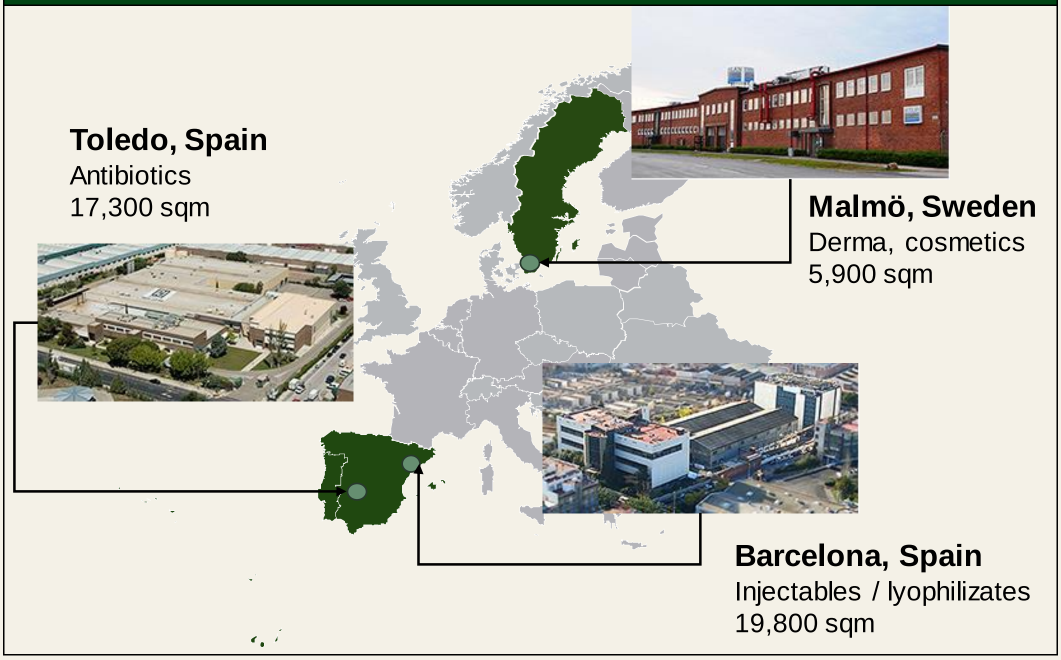
Injectables require sterile manufacturing capabilities

Injectables and lyophilizates (21% of sales) require special industrial processes and know-how to stabilise active principles that are highly labile (i.e., they are prone to reacting with other compounds or breaking down). This is especially relevant for biologic products, which are prone to contamination and thus require aseptic manufacturing conditions, which not all pharma companies can guarantee, and which face high regulatory barriers and oversight.

Strong positioning demonstrated by EC & Janssen agreements

The fact that the European Commission's HERA (Health Emergency Preparedness and Response Authority) has selected Reig Jofré as a supplier for future potential emergencies (e.g., a new pandemic), reserving 30% of its capacity, is a strong indication of the quality standards of its industrial processes. Moreover, the fact that Janssen selected Reig as a provider for its Covid vaccine is also a good sign of this, even if the vaccine was eventually unsuccessful (which was outside of Reig's control).

REIG JOFRÉ: INDUSTRIAL FOOTPRINT



Source: Reig Jofré website

2) Incremental innovation

Low-risk R&D approach

Traditional drug discovery is a high-risk, high-reward business. Reig's approach to innovation is lower risk and focused on incremental innovation: it aims to improve on existing drugs to achieve better efficacy, safety or convenience. This R&D approach is used in both Pharma Tech (44% of group sales, including antibiotics and injectables/lyophilizates) and Specialty Pharmacare (33% of group sales, including dermatology and osteoarticular products).

We find the recent example of the development of Ciclo-Tech® illustrative: Reig has developed a topical delivery system (Ciclo-Tech®) that better penetrates nail tissue, and thus in combination with topical antifungals (which are already approved with proven efficacy and safety) becomes more effective in treating nail fungal infections than they would otherwise be.

These improvements provide product differentiation vs. other off-patent drugs, and often cannot be replicated by generics manufacturers as, while they have expertise in manufacturing the active principle, they do not have the technology to produce the drug delivery system. Additionally, the group has know-how in product development, including the knowledge of the necessary trials and regulatory proceedings, which Reig leverages for its CDMO services (providing full process solutions, from drug development outsourcing all the way through commercial manufacturing).

While this R&D approach is unlikely to produce a major blockbuster, it requires less investment and has very limited risk. Also, the incremental improvements can often be applied to several different drugs (e.g., Ciclo-Tech has been used in two drugs, Rege Nail and DexULac), which is a better fit for Reig's highly diversified product portfolio (no single product accounts for >5% of sales).

3) Brand awareness

#1 consumer healthcare brand in France

Reig Jofré also operates a consumer healthcare business, in which it sells dietary supplements over-the-counter to consumers without the need for a medical prescription. These products include energy (royal jelly, vitamins) health/wellness boosters (collagen, hyaluronic acid) and weight control products. In this area, Reig enjoys strong brand awareness, especially with Forté Pharma (the main asset that was integrated with the acquisition of Natraceutical). As a reference, Forté Pharma is the #1 para-pharmacy brand in its product categories in France, with a c.12% market share, increasing from 11.6% in 2022 and 10.7% in 2021, according to the company.

REIG JOFRÉ: CONSUMER HEALTHCARE POSITIONING IN AMAZON FRANCE

Royal Jelly
Health
#1 most sold

Multivitamin complex
Energy
Amazon's choice

Melatonin
Sleep
#1 most sold
Has 3 other SKUs ranked #1 in Amazon

Supplement
Hair care
Amazon's choice

Dietary supplement
Circulatory system
Amazon's choice

Source: amazon.fr

IV. Investments set to pay off

Reig invested heavily over 2017-19 (€77m growth capex and M&A, adding up to c.40% of market cap) to add capacity in injectables and acquire some new specialty pharma assets. This was expected to pay off in 2020-25, but the pandemic truncated the plans, and whilst the Janssen agreement should have made up for this, it failed to meet expectations. However, this has left the company well-positioned in order to capitalise on favourable industry dynamics, as well as embarking on expansion initiatives that should bring growth and higher profitability.

1) Antibiotics: gaining share, potential upside from prices

Antibiotic demand is roughly stable/steadily increasing in terms of volumes, with positive demand trends from demographics (ageing population) and increased healthcare access partly offset by lower prescriptions to offset antibiotic resistance.

The normal trend was disrupted in 2020-21 when, as a result of the social distancing measures, infection levels declined across the board and the need for antibiotics fell. For Reig, this was primarily seen in 2021 (sales -18%), as in 2020 hospitals increased their inventories of critical medicines (including antibiotics), and thus there was destocking in 2021. During 2022-23, demand has recovered (+23% & +8%).

Competitors are exiting the antibiotics market

Beyond the normalisation of the industry, we think that Reig can continue to deliver volume growth (we estimate 6% in 2024 and 3% p.a. over 2025-26) vs. a stable market, driven by share gains as some competitors are exiting the antibiotics business (including GSK/Novartis, Allergan, and other players like Melinta facing operating/financial issues).

There is upside potential from price revision

The bigger question is pricing: prices in antibiotics are regulated, and they have failed to catch up with cost inflation. While we are assuming that prices remain stable (all our sales growth estimate stems from volumes), this is a potential source of upside risk. The pandemic has revealed the importance of access to critical medicines, and the tight pricing set by the EU is pushing manufacturers out of the business, leading the Union to rely on foreign (mostly Asian) suppliers. We think that this gives Reig and other players leverage to renegotiate prices.

REIG JOFRÉ: ANTIBIOTICS SALES ESTIMATES

(€ m)	2020	2021	2022	2023	2024E	2025E	2026E
Antibiotics sales	55	45	55	60	63	65	67
YoY		(18%)	23%	8%	6%	3%	3%
% of group sales	24%	19%	20%	19%	18%	17%	17%

Source: Alantra Equities

2) Injectables & Lyophilizates: EU, internal and external growth

Injectables enjoy very strong short and long-term growth prospects on secular demand tailwinds and Reig's strong commercial positioning.

Reig has reached an agreement with the EC to reserve capacity for emergencies

In the short term, the agreement with the EC's HERA to reserve 30% of its capacity in injectables for potential future emergencies should bring in incremental sales in 2024. What is more interesting, however, is that this 30% of capacity is not blocked idle for the EC, but instead the requirement is that the production lines remain "ever-warm" so that they can start and ramp up production quickly (in c.6 months) in the case of emergency. This means that Reig must incorporate some clients to use these lines, likely in short or smaller projects. All in all, this means that Reig can bill "twice" for this production capacity.

And excluding these lines, the outlook is very supportive as well. Injectables are the preferred delivery system for biologic therapies, RNA-based drugs, genetic therapeutics and other advanced medicines, which are rapidly taking share over the traditional chemical drugs.

Strong industry tailwinds in injectables that the group is well-positioned to capture

Reig is well-positioned to capture this due to: a) its expertise in developing drugs at a time in which the first few generations of biologics are losing their patent protection, opening a major window for the launch of new biosimilars (we highlight that RJF has expertise in developing biosimilars and has reached an agreement with Syna Therapeutics to develop these products); and b) the agreement with Janssen to produce Covid vaccines (even if commercial unsuccessful) and the EC contract have materially raised the profile of Reig Jofré in this space, thereby becoming preferred partners of other laboratories.

This should drive growth of both its own products and CDMO services. We estimate injectables and lyophilizates to grow at double-digit rates over 2024-26.

REIG JOFRÉ: INJECTABLES AND LYOPHILIZATES SALES ESTIMATES

(€ m)	2020	2021	2022	2023	2024E	2025E	2026E
Injectables	50	52	63	67	79	86	93
YoY		4%	20%	7%	18%	10%	8%
% of group sales	22%	22%	23%	21%	23%	23%	24%

Source: Alantra Equities

3) Specialty pharmacare: derma continues to drive growth

Internationalization drives solid sales growth in osteo and derma

The Specialty Pharmacare business has grown strongly over the past few years (17% CAGR 2020-23) driven by the osteoarticular product portfolio acquired from Bioibérica, which Reig Jofré has been rolling out over its commercial footprint. More recently, the launch of the previously mentioned Ciclo-Tech® products in dermatology has also driven growth.

We expect dermatology to be the main growth driver over 2023-26 (13% CAGR) on new product launches, while Osteoarticular should also perform well (+8% CAGR) on continued international expansion of the products, although partly offset by increased competition which could negatively impact prices, thus leading to softer growth than what Reig has delivered over the past few years. On the back of this, we estimate 8% sales CAGR for the Specialty Pharmacare business.

REIG JOFRÉ: SPECIALTY PHARMACARE SALES ESTIMATES

(€ m)	2020	2021	2022	2023	2024E	2025E	2026E	2023-26 CAGR
Dermatology	29	30	23	26	30	34	38	13%
Osteoarticular	26	32	48	67	73	79	84	8%
Other	11	14	9	12	12	12	12	2%
Specialty pharmacare	**66**	**76**	**80**	**105**	**115**	**125**	**134**	**8%**
YoY		14%	6%	31%	10%	8%	7%	
% of group sales	29%	32%	30%	33%	33%	34%	34%	

Source: Alantra Equities

4) Consumer: brand positioning and intl. expansion

Rollout of Forté Pharma products to other geographies also driving growth

In consumer healthcare, Reig enjoys strong brand awareness primarily in France with Forté Pharma, which allows the group to capture the favourable industry dynamics, as consumers are increasing the focus on health, wellness and prevention, leading to higher consumption of dietary supplements. In addition to the secular growth trends, Reig is expanding the business internationally, with Poland being the most recent market entry after the incorporation of RJF Poland in 2021.

The main challenge is the major expansion of the GLP1 drug class (e.g., Ozempic, Wegovy) which represent a paradigm shift in weight management, and should therefore compete with weight control dietary supplements. Since the supplements target a broader consumer spectrum with a less pathologic profile, the disruption is not total, but we do expect secular declines going forward. This should be more than offset by growth in other product categories.

REIG JOFRÉ: CONSUMER HEALTHCARE SALES ESTIMATES

(€ m)	2020	2021	2022	2023	2024E	2025E	2026E	2023-26 CAGR
Weight	14	12	12	12	12	12	12	(1%)
Energy, health & others	39	45	53	60	65	70	76	8%
Consumer healthcare	**52**	**57**	**66**	**72**	**77**	**82**	**87**	**7%**
YoY		8%	16%	10%	7%	6%	6%	
% of group sales	23%	24%	24%	23%	22%	22%	22%	

Source: Alantra Equities

5) Mix and efficiency gains drive margin expansion

Gross margin to expand on better mix

Based on the above, we expect 8% group sales CAGR over 2023-26, and this growth comes primarily from higher margin segments (injectables, specialty pharma, consumer) and less from lower margin products (antibiotics). This results in a favourable mix that should fuel gross margin expansion over 2024-26 (we estimate 1.3pp to 59%), with additional upside potential (in both sales and margins) from better pricing in antibiotics.

Wage inflation in 2024 is the main headwind

The main challenge to margins in 2024 should be wage inflation (personnel expenses make up 27% of the cost structure up to EBITDA, and 51% of opex excluding cost of sales), as the pharma sector collective bargaining agreement in Spain has agreed for double-digit salary increases to offset the inflation over the past couple of years. We expect this to partly offset the higher gross margin and limit EBITDA margin expansion in 2024 to +30bps, reaching 11%. With continued sales growth, a better mix, and more "normalised" wage inflation, we expect operating leverage to kick in and allow for 1.2pp of additional EBITDA margin expansion over 2025-26, reaching 12.1%.

On the back of the above, we estimate 12% EBITDA CAGR over 2023-26, 17% in adjusted EBIT (excluding PPA amortization), and 25% in reported EBIT, almost doubling from €11m to €21m.

REIG JOFRÉ: MARGINS AND OPERATING RESULT ESTIMATES

(€ m)	2021	2022	2023	2024E	2025E	2026E	26/23 CAGR
Sales	**236**	**271**	**316**	**348**	**372**	**396**	**8%**
CoGS	(91)	(113)	(134)	(145)	(153)	(162)	7%
Gross profit	**145**	**158**	**182**	**203**	**219**	**233**	**9%**
Opex	(118)	(128)	(149)	(164)	(176)	(186)	8%
EBITDA	**27**	**30**	**34**	**38**	**43**	**48**	**12%**
D&A	(12)	(15)	(17)	(18)	(20)	(21)	7%
EBIT, adjusted	**15**	**14**	**17**	**20**	**24**	**27**	**17%**
PPA amortization	(6)	(6)	(6)	(6)	(6)	(6)	-
Non-recurring items	-	-	-	-	-	-	n.m.
EBIT, reported	**9**	**9**	**11**	**14**	**18**	**21**	**25%**
Margins							
Gross margin	61.3%	58.3%	57.7%	58.3%	58.8%	59.0%	
EBITDA margin	11.4%	10.9%	10.7%	11.0%	11.6%	12.1%	
EBIT margin, adjusted	6.3%	5.3%	5.2%	5.9%	6.3%	6.8%	
EBIT margin, reported	3.7%	3.1%	3.3%	4.1%	4.7%	5.2%	
Growth							
Sales	3%	15%	17%	10%	7%	6%	
Gross profit	3%	9%	15%	11%	8%	7%	
EBITDA	3%	10%	14%	14%	13%	11%	
EBIT, adjusted	(2%)	(2%)	14%	23%	16%	13%	
EBIT, reported	(3%)	(4%)	24%	37%	22%	18%	

Source: Alantra Equities

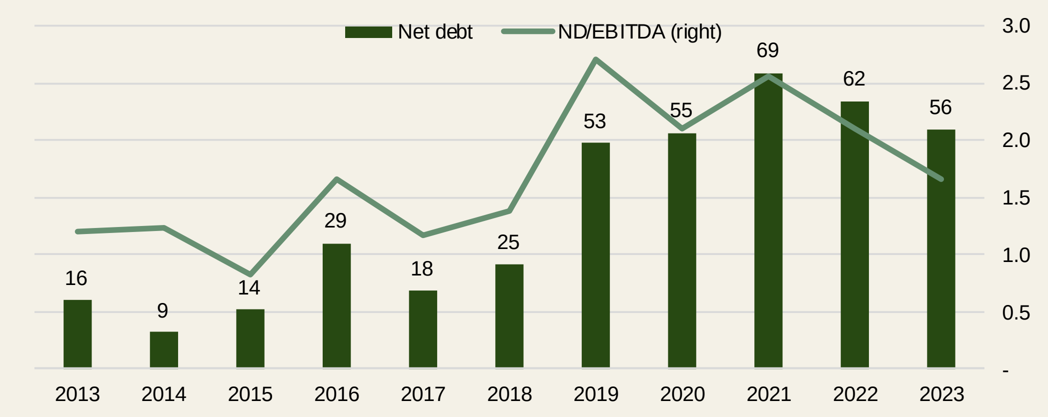
V. Solid Balance sheet & capital allocation

1) Healthy balance sheet and debt structure

Leverage of 1.7X is comfortable

The EBITDA growth over the past few years, combined with solid CF generation, has led leverage to fall to 1.7X as of the end of 2023. This is low for a company with relatively high visibility on demand, sales and earnings like Reig, and normalised leverage levels could be closer to the 2-2.5X range, leaving room for investments or increases in shareholder remuneration.

REIG JOFRÉ: HISTORICAL LEVERAGE EVOLUTION (€ m)

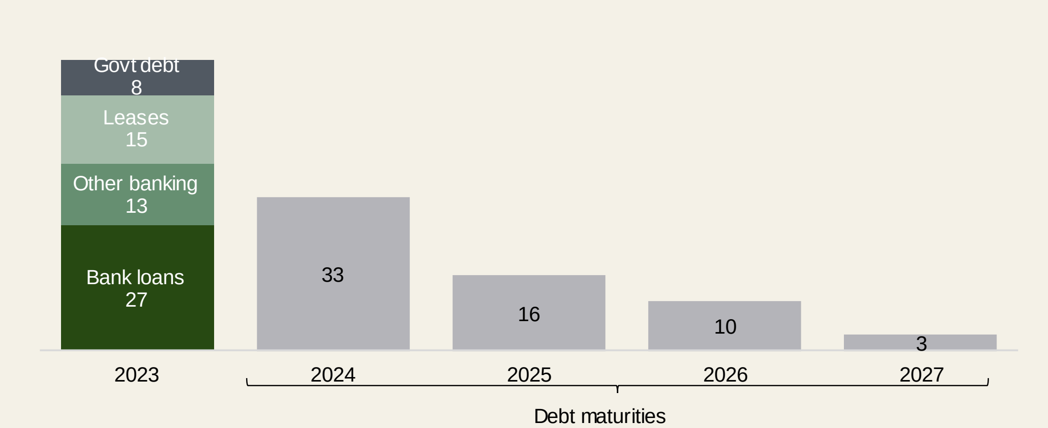


Source: Reig Jofré annual accounts

2% average cost of debt, although expect rollover in the coming years

The group's gross debt of €61m is structured as follows: €27m banking loans maturing over 2024-26, €13m other short term banking debt (mostly a revolving credit facility), €15m leases and €8m public debt with interest rates <1%. The average cost of debt stands at c.2% and the table below summarises the maturity schedule.

REIG JOFRÉ: DEBT STRUCTURE & MATURITIES SNAPSHOT (€ m)



Source: Reig Jofré 2023 annual accounts

2) Room to accommodate incremental investments

While the company is well invested after the 2017-19 cycle, it is now open to resuming investments. With a low return on capital (5-8% average RoCE), adding further investments may be met with scepticism insofar the company has not yet extracted value from its existing assets. However, we believe that the low average RoCE is not the result of poor returns on the recent investments, but rather a combination of low returns in the antibiotics business (which could change thanks to potential price increases, low competition and minor investments to improve industrial efficiency), and legacy assets from Natraceutical that Reig can capitalise on by rolling out into new geographies.

The acquisition of the Osteoarticular portfolio has demonstrated high value-creation potential

We believe that a case study of the most recent investments should be revealing of Reig's value creation ability. Reig acquired a portfolio of osteoarticular drugs from Bioibérica in 2019 for €48m, and the business generated c.€30m revenues at the time. Since then, Reig has expanded sales to €68m in 2023 by leveraging the product portfolio over its own commercial network in Spain and elsewhere. We estimate that this business has a higher margin (c.10% EBIT after amortization of intangibles) than the group's average (3%), so the implied RoIC (post-tax) was c.10% from year one and stands at c.18% as of today, implying high value creation from both the asset itself and the commercial synergies extracted from it.

REIG JOFRÉ: BIOIBÉRICA OSTEOARTICULAR PORTFOLIO ACQUISITON CASE STUDY

(€ m)	2019	2020	2021	2022	2023
Sales		36	39	49	68
EBIT		5	6	7	10
NOPAT		5	5	6	9
Capex	(48)				
RoIC		**10%**	**10%**	**13%**	**18%**

Source: Reig Jofré annual accounts, Alantra Equities assumption of EBIT margin

We think that the company could deploy capital in the following areas:

a) **Small industrial improvements.** Our estimates incorporate c.€10m of additional capex per annum over 2024-25 as the company engages in some industrial improvements, namely new machinery to debottleneck antibiotic lines (increasing the capacity of one production line by 4X), and other industrial improvements that should help reduce costs.

b) **New product portfolios.** Similar to Bioibérica, we expect Reig to remain on the lookout for new product portfolios to integrate into its commercial footprint. The portfolios should be focused on niche therapeutic areas, and with room for product differentiation without the need for patent protection.

c) **Internationalization.** The company expands internationally with a beachhead strategy, in which it enters into a new market with a product and, once established, it rolls out the rest of its portfolio to extract commercial synergies from the different businesses. We think that the group could benefit from acquiring a small sales team into new markets (Eastern Europe?), to which Reig can introduce its commercial and specialty pharma products.

3) Return on capital set to improve

We expect RoCE to approach double-digit by 2026

As we explained earlier, we see Reig as well invested and its operating prospects look favourable, so we expect the utilisation and profitability of existing assets to improve over the coming years. In addition to this, the incremental investments described above, some of which are already in our estimates, should bring in higher average return on capital. As a result, we expect the group's RoCE to improve from 6.2% (2023) to 9.6% (2026), RoIC from 5.7% to 8.6%, and RoE from 4.1%to 6.8%.

REIG JOFRÉ: RETURN ON CAPITAL ESTIMATES

(€ m)	2023	2024E	2025E	2026E
Equity	204	215	228	238
Capital employed	267	282	288	286
EBIT	17	20	24	27
NOPAT	15	18	21	24
Net profit	8	11	13	16
RoCE (%)	6.2	7.2	8.2	9.3
RoIC (%)	5.7	6.5	7.3	8.4
RoE (%)	4.1	5.0	5.8	6.8

Source: Alantra Equities

4) Shareholder remuneration

We estimate that Reig will generate a recurring FCF of €65m, of which €5m should be used to pay interests, and €32m should be deployed for growth investments (60/40 capex/working capital). This leaves €27m free cash flow which, in absence of M&A, we assume will be primarily deployed in reducing net debt (€20m) and in dividend payments (€7m), mostly in 2026.

REIG JOFRÉ: SOURCES AND USES OF FUNDS

(€ m)	2023	2024E	2025E	2026E	2024-26
Recurring unlevered CF	**18**	**18**	**22**	**25**	**65**
Interest (net of tax)	(1)	(2)	(2)	(2)	(5)
Recurring levered CF	**17**	**17**	**20**	**23**	**60**
Growth investments	(12)	(21)	(13)	(5)	(39)
Dividends	(0)	(0)	(0)	(6)	(7)
Debt reduction	(7)	4	(7)	(12)	(14)

Source: Alantra Equities estimates

The company has a scrip dividend policy, with 98% of the capital having opted for shares

Reig currently distributes a dividend (€0.04p.s.) under a scrip program, which over the L7Y has been subscribed in shares by c.98% of the capital, meaning that the group is not paying many cash dividends at the moment. We think that the scrip dividend makes sense insofar the company was finding investment alternatives to deploy the capital. In our estimates, since we do not assume significant investments from 2026, we assume a normal cash DPS payment from that year, leading to €6m payments in 2026. This is based on a 40% dividend payout on the growing profits, which leads DPS to almost double from €0.04 in 2023 to €0.08 in 2026E.

REIG JOFRÉ: DIVIDEND ESTIMATES

(€ m)	2021	2022	2023	2024E	2025E	2026E
EPS	0.06	0.08	0.11	0.13	0.16	0.19
DPS	0.05	0.04	0.04	0.05	0.06	0.08
Payout	70%	48%	38%	40%	40%	40%
% of scrip acceptance	98%	97%	97%	97%	97%	-
% of cash acceptance	2%	3%	3%	3%	3%	100%
Dividends paid (€ m)	0	0	0	0	0	6

Source: Alantra Equities

VI. Estimates

1) P&L Estimates

We expect high-teen EPS growth over 2024-26

We expect Reig to deliver strong profit growth over the next 3Y, driven by increased utilisation of the current assets, efficiency improvements, as well as better product mix and operating leverage. After a strong 2023, with sales +17%, EBITDA, adjusted (excluding PPA amortization) EBIT +14%, and adjusted EPS +16%, we expect mid-teens annual EPS growth over 2024-26.

REIG JOFRÉ: P&L ESTIMATES

(€ m)	2022	YoY%	2023	YoY%	2024E	YoY%	2025E	YoY%	2026E
Sales	271	17%	316	10%	348	7%	372	6%	396
EBITDA	30	14%	34	14%	38	13%	43	11%	48
EBIT, adjusted*	14	14%	17	23%	20	16%	24	13%	27
EBIT	9	24%	11	37%	14	22%	18	18%	21
Net profit	6	30%	8	28%	11	23%	13	21%	16
EPS (€)	0.08	28%	0.11	26%	0.13	21%	0.16	19%	0.19
Net profit, adjusted*	11	18%	13	18%	15	16%	18	16%	21
EPS, adjusted* (€)	0.14	16%	0.16	16%	0.19	14%	0.22	14%	0.25

* Adjusted for PPA amortization

Source: Alantra Equities

Regarding sales, the main drivers are detailed in greater detail in an earlier section of the report. At a general level, our assumptions for each business are as follows:

1. **Pharma tech.** We forecast pharma tech to jump by 12% in 2024 to €155m, boosted by the recent EU agreement. From there on, we expect mid-to-high single digit growth mainly driven by injectables, volume (available spare capacity & plant productivity), and to a lesser extent by antibiotics (market share gains). Further upside would stem from better antibiotics pricing.

2. **Specialty Pharmacare.** We estimate specialty pharmacare to grow by 10% YoY in 2024 to €115m and then grow by high-single digit in FY25-26E, driven by the internationalisation (expanding into new markets such as Poland since 2021) of its current product portfolio across all three categories, more than offsetting competition in osteoarticular.

3. **Consumer Healthcare.** We estimate consumer to grow by mid-to-high single digit, going from €77m (24E) to €87m (26E), with growth in energy, health and other products offsetting a decline in weight management products, which we expect to decline due to GLP1 competition.

REIG JOFRÉ: SALES ESTIMATES

(€ m)	2022	YoY%	2023	YoY%	2024E	YoY%	2025E	YoY%	2026E
Sales	**271**	**17%**	**316**	**10%**	**348**	**7%**	**372**	**6%**	**396**
PharmaTech	125	11%	139	12%	155	7%	165	6%	174
Specialty Pharmacare	80	31%	105	10%	115	8%	125	7%	134
Consumer Healthcare	66	10%	72	7%	77	6%	82	6%	87

Source: Alantra Equities

Sales should grow at high-single digit rates, with significant margin expansion

We expect margins to improve over 2024-26, primarily driven by a better product mix which should translate into a higher gross margin. While wage inflation will negatively impact operating costs in 2024, leading EBITDA margin to remain flattish despite the higher gross margin, we estimate more normalised cost inflation from 2025, and as operating leverage kicks in, EBITDA margin should expand rapidly.

As a result, with sales increasing by 10% (2024), 7% (2025) & 6% (2026), we expect EBITDA to increase by 14%, 13% and 11%, adjusted EBIT (ex-PPA amortization) by 23%, 16% & 13%, and reported EBIT by 37%, 22% and 18%, almost doubling from €11m (2023) to €21m (2026).

REIG JOFRÉ: OPERATING RESULT ESTIMATES									
(€ m)	**2022**	**YoY%**	**2023**	**YoY%**	**2024E**	**YoY%**	**2025E**	**YoY%**	**2026E**
Sales	271	17%	316	10%	348	7%	372	6%	396
COGS	(113)	18%	(134)	8%	(145)	6%	(153)	6%	(162)
Gross Profit	**158**	**15%**	**182**	**11%**	**203**	**8%**	**219**	**7%**	**233**
Opex	(128)	16%	(149)	10%	(164)	7%	(176)	6%	(186)
EBITDA	**30**	**14%**	**34**	**14%**	**38**	**13%**	**43**	**11%**	**48**
D&A	(15)	14%	(17)	5%	(18)	9%	(20)	7%	(21)
EBIT, adjusted*	**14**	**14%**	**17**	**23%**	**20**	**16%**	**24**	**13%**	**27**
PPA amortization	(6)	1%	(6)	-	(6)	-	(6)	-	(6)
EBIT, reported	**9**	**24%**	**11**	**37%**	**14**	**22%**	**18**	**18%**	**21**

*Adjusted for PPA amortization

Source: Alantra Equities

The rollover of debt should lead to higher financial costs

Below EBIT, we assume that the gradual rollover of debt (cost of debt increasing towards 3.5% on average, which could be lower if the group continues to obtain soft credits from government agencies), as well as the financing of new investments, will increase the interest burden slightly to c.€2m p.a. over 2024-26.

The tax rate should remain stable over 2024-26 at c.12%, although it should increase over time as deductions from R&D and old tax losses are depleted.

With this, we expect reported net profit to increase >20% p.a., and adjusted net profit (we only exclude the PPA amortization in our adjustments) to increase by mid-teens. EPS should grow slightly less than net profit due to the dilution associated with the scrip dividend (with c.98% of the capital opting to receive shares instead of cash, there is no real dilution).

REIG JOFRÉ: NET PROFIT AND EPS ESTIMATES									
(€ m)	**2022**	**YoY%**	**2023**	**YoY%**	**2024E**	**YoY%**	**2025E**	**YoY%**	**2026E**
EBIT	**9**	**24%**	**11**	**37%**	**14**	**22%**	**18**	**18%**	**21**
Net interest	(1)	31%	(1)	80%	(2)	15%	(2)	(1%)	(2)
Pretax profit	**7**	**33%**	**10**	**29%**	**12**	**23%**	**15**	**21%**	**18**
Income taxes	(1)	67%	(1)	34%	(1)	23%	(2)	21%	(2)
Net profit	**6**	**30%**	**8**	**28%**	**11**	**23%**	**13**	**21%**	**16**
EPS (€)	**0.08**	**28%**	**0.11**	**26%**	**0.13**	**21%**	**0.16**	**19%**	**0.19**
Net profit, adjusted*	**11**	**18%**	**13**	**18%**	**15**	**16%**	**18**	**16%**	**21**
EPS, adjusted* (€)	**0.14**	**16%**	**0.16**	**16%**	**0.19**	**14%**	**0.22**	**14%**	**0.25**
Average cost of debt	1.4%		1.9%		3.3%		3.5%		3.5%
Tax rate	9.2%		11.5%		12.0%		12.0%		12.0%

* Adjusted for PPA amortization

Source: Alantra Equities

2) Cash flow, debt and leverage estimates

Some projects will lead to high capex over 2024-25

We expect capex to pick-up in 2024-25 for some debottlenecking works and industrial efficiency improvements at the Spanish facilities. This should lead capex to increase from the c.€12m maintenance level to €22-23m p.a. in 2024-25, then to fall back again in 2026.

REIG JOFRÉ: CAPEX ESTIMATES						
(€ m)	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Capex, maintenance	12	12	13	14	15	16
Capex, growth	8	-	-	7	7	-
Total capex	**20**	**12**	**13**	**21**	**23**	**16**
Capex to sales	8.5%	4.3%	4.1%	6.1%	6.1%	4.1%

Source: Alantra Equities

We also expect the sales growth to require investments in working capital, as we expect it to remain stable at c.21% of sales.

REIG JOFRÉ: WORKING CAPITAL ESTIMATES

(€ m)	2021	2022	2023	2024E	2025E	2026E
Working capital	44	53	66	73	78	83
Working capital to sales	18.7%	19.4%	20.7%	21.0%	21.0%	21.0%
Working capital investment	(7)	(3)	(12)	(7)	(5)	(5)

Source: Alantra Equities

In terms of M&A, the €6m estimate for 2024 includes financial investments announced to date (mostly LeanBio). On the back of this, we expect CF generation to be low in 2024 (€3m before taxes) despite the growth in profits, to then grow over 2025-26.

REIG JOFRÉ: CASHFLOW ESTIMATES

(€ m)	2021	2022	2023	2024E	2025E	2026E	24-26E
Net profit	5	6	8	11	13	16	40
D&A	18	21	23	24	26	27	77
Non-cash items	(3)	(2)	(1)	(3)	(4)	(4)	(11)
Total cash flow	**20**	**26**	**30**	**31**	**35**	**39**	**106**
Capex	(20)	(12)	(13)	(21)	(23)	(16)	(61)
Working capital	(7)	(3)	(12)	(7)	(5)	(5)	(18)
Operating FCF	**(7)**	**11**	**6**	**2**	**7**	**18**	**28**
Acquisitions	(4)	(2)	-	(6)	-	-	(6)
Others	(3)	(2)	1	-	-	-	-
Free cash flow	**(14)**	**7**	**7**	**(3)**	**7**	**18**	**22**
Dividends	(0)	(0)	(0)	(0)	(0)	(6)	(7)
Change in net debt	**(14)**	**7**	**7**	**(3)**	**7**	**12**	**15**

Source: Alantra Equities

Leverage to fall steadily in the absence of M&A

Despite the limited CF generation, we expect leverage to fall on the back of EBITDA growth. Leverage already stands at 1.7X23, which is below the group's leverage capacity (2-2.5X) and, in absence of M&A, we expect this to fall further to 1.6X24 and 0.9X by 2026.

REIG JOFRÉ: NET DEBT & LEVERAGE ESTIMATES

(€ m)	2021	2022	2023	2024E	2025E	2026E
Net debt	69	62	56	60	53	42
EBITDA	27	30	34	38	43	48
Net debt/EBITDA (x)	**2.6**	**2.1**	**1.7**	**1.6**	**1.2**	**0.9**

Source: Alantra Equities

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